

Strategies For Successful SME Banking

Strategic Planning at the SME Unit Level

Central Bank of Egypt & The Egyptian Banking Institute

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Welcome

- Strategies for success
- Creation of a viable business case to launch an initiative, and a business plan to use as a roadmap
- SME Segment Definition
 - Small Enterprise = annual sales $>$ 1MM EGP and $<$ 20MM EGP
 - Medium Enterprise = annual sales $>$ 20MM EGP and $<$ 100MM EGP

Market Stratification

- How is the market truly delineated?
 - Sales size vs. credit underwriting
- Economies of scale
- Does a small enterprise resemble a consumer banking client?
- Does a medium enterprise resemble a commercial banking client?

The Business Case

- Encouragement to enter the market by the Central Bank of Egypt
- Market intuition vs. building a business case
- Can you profitably serve the SME market?
 - Infrastructure & delivery channels needed
 - Scope of the marketplace
 - Size
 - Segment
 - Geographic
- Answer the following questions – Who, What, Why, Where, When, and How?

The Business Case

- Financial Considerations
 - How much NEW business will you need to generate?
 - Fixed vs. variable costs
- Cost Allocation
 - Existing vs. new delivery channels
 - Consumer, telephone, internet, in-person, etc.
 - Internal departments
 - Credit, marketing, finance, human resources, etc.
 - Corporate fixed overhead
 - Everyone in this room!

The Business Plan

- A detailed plan is your roadmap to success. Without a map, how do you know where you are going?
- The plan will define objectives, goals, policies, procedures, etc.
- How will you measure success, and how often?

Business Plan Components

- Define target market
 - Client Selection
 - Industry Segments
 - Geographic regions
- Define objective and financial goals
 - Define market share objectives
 - Define target ROI and ROE goals
 - Align corporate goals and individual goals
 - Define corporate overhead allocations
- Define policies and procedures
 - Define concentration limits (segment, sub-segment, and geographic)
 - Risk policies by segment
 - Approval process
 - Regular credit (loan or line)
 - Targeted loan programs
 - Approval process when there are policy or procedure changes
 - Loan origination vs. loan renewal

Business Plan Components

- Define control mechanisms
 - Loan growth and quality targets
 - Deposit growth targets
 - Operating budget
- Identify resources required for success
 - Human resources
 - IT resources/infrastructure
 - Marketing
 - Branch Network
 - Risk Management
- Assess your competitive strengths and weaknesses
 - Short term vs. sustainable competitive advantages
 - Implementation strategies
 - Delivery channels
 - Products
- Establish an operating budget
 - Include development costs of new products and initiative

Building a Successful Program

- SME Banking Certification Program
 - Strategic Planning
 - Operational Set-Up
 - Product Development
 - Marketing & Distribution Channels
 - Risk Management & Profitability

Differing Perspectives

What SME's Think of Banks	What Banks think of SME's
Banks are expensive (high borrowing rates and fees, low deposit rates) and time consuming	Unsophisticated, don't understand banker's language/requirements
Procedures are complex, not understood, can cause suspicion	Absence of accounts, financial records, documents, business planning
Terms and conditions are unacceptable	High operating cost due to small loan size and time intensive processing
Documentation is complicated and onerous	High repayment risk and high collection costs
Products are unfamiliar, information is limited	Confusing sector – what makes a good customer

An SME Market Sub-segment

- For profit outpatient healthcare
- Do doctors and bankers work the same way?
 - Symptoms, Diagnosis, Treatment
 - Assess, Design, Execute
- Creation of a specialized team
 - Team Leadership and Distribution Channels
 - Client Management
 - Credit Underwriting, Risk Management, and Documentation
 - Marketing Product Development and Communications

Conclusion

- Thank you
- Following the recipe
- Questions